

**UNIVERSITY OF VIRGINIA
CHARLOTTESVILLE, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2000, found:

- The financial statements are presented fairly, in all material respects;
- Internal control matters relating to the Medical Center that we consider reportable conditions; however, we do not consider any of these to be material weaknesses; Our findings include the following issues:
 - Strengthen Security Over Critical Information Systems and Network;
 - Develop Formal Change Control Procedures Over PeopleSoft and Oracle Applications; and
 - Strengthen Controls Over Timely Deletion of Systems Access.
- No material instances of noncompliance required to be reported under Government Auditing Standards; and
- Adequate corrective action of prior audit findings except for finding entitled "Strengthen Security Over Critical Information Systems and Network."

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR’S REPORT:	
Independent Auditor’s Report on Supplementary Information	1
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting	2- 3
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	4- 5
SUPPLEMENTARY INFORMATION:	
Schedule of Auxiliary Enterprises - Revenues and Expenditures	8- 9
State Student Loan Schedule	11
UNIVERSITY OFFICIALS	13

October 13, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the financial statements of the **University of Virginia** as of and for the year ended June 30, 2000, and have issued our report thereon dated October 13, 2000. Our report on the financial statements is contained in the President's Report 1999-00 issued by the University. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was performed for the purpose of forming an opinion on the financial statements of the University taken as a whole. The accompanying Schedule of Auxiliary Enterprises - Revenues and Expenditures and the State Student Loan Schedule are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the University of Virginia as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters relating to the operations of the Medical Center and involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Strengthen Security Over Critical Information Systems and Network," "Develop Formal Change Control Procedures Over PeopleSoft And Oracle Applications," and "Strengthen Controls Over Timely Deletion of Systems Access," are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described are a material weakness.

Status of Prior Findings

The University has not completed corrective action with respect to the previously reported finding titled, "Strengthen Security Over Critical Information Systems and Network." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor, the General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 9, 2000.

AUDITOR OF PUBLIC ACCOUNTS

JHS:whb
whb:158

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Medical Center

Strengthen Security Over Critical Information Systems and Network

The Health Systems Computing Services, (HSCS), has undertaken a significant effort to enhance its security over the Medical Center's information systems. As custodian over data resources that are vital to the Medical Center's operations, HSCS must implement and maintain strong security controls that adequately safeguard the Medical Center's information resources and, as importantly, protect the privacy of its patients.

During the year, the HSCS addressed many of the specific concerns in our last report. Network communications now have to pass through a firewall server and application before accessing the general ledger accounting system. Replacement computers and operating systems housing the accounting system improve security by encrypting stored passwords. Additionally, HSCS installed an add-on security program, which strengthens password controls over the PeopleSoft applications. HSCS continues to investigate the further use of encryption technology to improve data security.

To increase security within the entire information system environment, Medical Center management developed a comprehensive security strategy. The plan has a two-phase implementation. First, the Medical Center management contracted a data security consulting firm to perform Phase One, a Risk Analysis and Vulnerability Assessment. The consultant completed their work in May 2000. This assessment addressed several vulnerabilities in the Medical Center's network security system, including a lack of centralized security management, insufficient network controls, inadequate data security policies, and improper configurations of hardware. Medical Center management is beginning Phase Two by acquiring the services of another data security firm to assist in resolving the noted deficiencies and developing a comprehensive information security program. Medical Center management should continue to expedite corrective actions on the most significant vulnerabilities and continue to proceed with development of a comprehensive information security program.

Develop Formal Change Control Procedures Over PeopleSoft And Oracle Applications

The Medical Center does not have formal documented change control procedures managing changes and upgrades to its PeopleSoft and Oracle applications. Even though there are no formal procedures, the database administrator ensures that user management authorizes changes and usually obtains user approval before placing modified programs into production.

The Medical Center should document formal change control procedures for its PeopleSoft and Oracle programs. The procedures should include documented authorization from user management and Health Systems Computing Services (HSCS) management, control of each change request and its status, review and approval by HSCS management, and testing and approval by user management before adding the changes to production software.

Without formal policies, inappropriate changes of the PeopleSoft and Oracle applications could occur and go undetected. Further, HSCS or user management may not have approved changes, which could result in excessive customization changes required with each upgrade of the applications. The Medical Center should develop formal written change control procedures over its PeopleSoft and Oracle applications.

Strengthen Controls Over Timely Deletion of Systems Access

The Medical Center failed to promptly terminate former employees' system/network access. The Security Administrator does not receive timely information regarding terminations from departments. The Medical Center should develop and implement a uniform procedure for notifying the Security Administrator of all user transfers or terminations to help ensure the Medical Center's system access security.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF VIRGINIA
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2000
(In thousands)

	Athletics	Faculty and Staff Services	Food Services	Residential Facilities	Stores and Shops	Student Activities
Operating revenues:						
Student fees	\$ 4,397	\$ 1,563	\$ -	\$ 1,263	\$ -	\$ 4,535
Sales and services (Note A)	17,347	7,841	4,018	20,038	33,071	2,162
Gross operating revenues	21,744	9,404	4,018	21,301	33,071	6,697
Cost of sales	-	-	86	-	25,120	23
Net operating revenues	21,744	9,404	3,932	21,301	7,951	6,674
Operating expenditures:						
Personal services	10,931	2,656	137	5,311	2,974	2,456
Contractual services	4,153	2,810	2,698	6,514	1,317	1,840
Supplies and materials	1,217	409	82	1,430	375	440
Equipment	24	40	43	264	59	9
Miscellaneous	3,323	382	34	1,280	828	223
Total operating expenditures	19,648	6,297	2,994	14,799	5,553	4,968
Interdepartmental recoveries and charges	(465)	(318)	(1,179)	(19)	53	(344)
Net operating expenditures	19,183	5,979	1,815	14,780	5,606	4,624
Excess of revenues over operating expenditures	2,561	3,425	2,117	6,521	2,345	2,050
Nonoperating revenues (expenditures):						
Interest income	36	73	237	267	185	119
Private gifts	7,523	-	-	-	-	-
Other sources	23	-	-	-	-	-
Scholarships and fellowships	(79)	(1)	-	(11)	(4)	(2)
Total nonoperating revenues (expenditures)	7,503	72	237	256	181	117
Transfers:						
Mandatory:						
Debt Service	-	(2,297)	(777)	(3,008)	(595)	(69)
Nonmandatory:						
Capital improvements	(1,507)	(852)	(1,626)	(4,805)	(703)	(1,559)
Other	(3,671)	(47)	(101)	(162)	(374)	(46)
Total transfers	(5,178)	(3,196)	(2,504)	(7,975)	(1,672)	(1,674)
Net increase (decrease) for the year	4,886	301	(150)	(1,198)	854	493
Fund balances (deficit) at beginning of year (Note B)	(1,194)	(478)	1,957	1,662	6,414	1,687
Fund balances (deficit) at end of year	\$ 3,692	\$ (177)	\$ 1,807	\$ 464	\$ 7,268	\$ 2,180

Note A: Sales and Services revenue in Athletics is shown net of Atlantic Coast Conference contributions of \$924,540.

Note B: Certain beginning balances have been reclassified to conform with changes in classifications of certain activities in accordance with accounting standards. Therefore, these beginning balances may not agree with amounts reported in previous years.

	Student Health	Long Distance Telephone	Other Auxiliaries	Total
\$	5,876	\$ -	\$ 71	\$ 17,705
	195	718	3,253	88,643
	6,071	718	3,324	106,348
	-	-	-	25,229
	6,071	718	3,324	81,119
	4,451	28	230	29,174
	764	825	1,529	22,450
	353	-	81	4,387
	36	1	6	482
	136	34	15	6,255
	5,740	888	1,861	62,748
	3		(86)	(2,354)
	5,743	888	1,775	60,394
	328	(170)	1,549	20,725
	84	331	44	1,376
	-	-	-	7,523
	-	-	-	23
	(1)	-	-	(98)
	83	331	44	8,824
	(124)	-	(696)	(7,566)
	1,153	(161)	(355)	(10,415)
	64	-	(70)	(4,407)
	1,093	(161)	(1,121)	(22,388)
	1,504	-	472	7,161
	(642)	-	511	9,917
\$	862	\$ -	\$ 983	\$ 17,078

UNIVERSITY OF VIRGINIA
STATE STUDENT LOAN SCHEDULE
For the Year Ended June 30, 2000

In prior years, the University used its Commonwealth of Virginia Student Loan Fund to provide matching funds to meet the institutional contribution requirements of the federally sponsored Perkins Loan Program. At June 30, 2000, the fund balance of the State Student Loan Fund consisted of the following:

Cash	\$ 8,128
Due from Perkins Loan Program	<u>82,306</u>
Fund balance	<u>\$ 90,434</u>

The University transferred no funds from the State Student Loan Fund to the Perkins Loan Program during the fiscal year.

UNIVERSITY OF VIRGINIA
Charlottesville, Virginia

BOARD OF VISITORS

John P. Ackerly, III, Rector

Thomas J. Bliley, Jr.	Timothy B. Robertson
Charles M. Caravati, Jr., M.D.	Terence P. Ross
William G. Crutchfield, Jr.	Elizabeth A. Twohy
Charles L. Glazer	Walter F. Walker
William H. Goodwin, Jr.	Benjamin P.A. Warthen
T. Keister Greer	James C. Wheat, III
Elsie Goodwyn Holland	Joseph E. Wolfe
Gordon F. Rainey, Jr.	Stephen S. Phelan, Jr. (Student Member)

Alexander G. Gilliam, Jr.
Secretary to the Board of Visitors

ADMINISTRATIVE OFFICERS

John T. Casteen, III, President

Leonard W. Sandridge, Jr., Executive Vice President and Chief Financial Officer

Peter W. Low, Vice President and Provost

Robert W. Cantrell, M.D., Vice President and Provost for Health Sciences

William W. Harmon, Vice President for Student Affairs